

**STATE OF LOUISIANA
DEPARTMENT OF ENVIRONMENTAL QUALITY**

IN THE MATTER OF:

**CITGO PETROLEUM CORPORATION
LAKE CHARLES MANUFACTURING
COMPLEX
POST OFFICE BOX 1562
LAKE CHARLES, LOUISIANA 70602-1562
CALCASIEU PARISH**

**PROCEEDINGS UNDER THE
ENVIRONMENTAL QUALITY ACT,
La. R.S. 30:2001, ET SEQ.**

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**ENFORCEMENT TRACKING NO.
AE-NP-99-0226**

SETTLEMENT AGREEMENT

The following settlement is hereby agreed to between CITGO Petroleum Corporation ("CITGO") and the Louisiana Department of Environmental Quality (the "Department"), under authority granted by the Louisiana Environmental Quality Act, La. R.S. 30:2001 et seq. (the "Act").

I.

CITGO owns and operates a petroleum refinery located in Lake Charles and related wastewater treatment facility located on La. Highway 108, south of Sulphur, both in Calcasieu Parish, Louisiana (collectively, the "Refinery").

II.

On October 29, 1999, the Department issued to CITGO Notice of Violation and Potential Penalty Tracking No. AE-NP-99-0226 (the "NOVPP"), alleging various violations of 40 CFR Part

61, Subpart FF, National Emission Standard for Benzene Waste Operations ("Benzene NESHAP"), the Act, and the Louisiana Air Quality Regulations, LAC 33:III. In the NOVPP, the Department notified CITGO that the issuance of a penalty assessment was being considered for the violations alleged therein.

III.

Representatives of CITGO and the Department met on various occasions to discuss mitigating factors and circumstances surrounding the alleged violations. CITGO or CITGO's attorney also submitted written comments to the Department concerning (a) the NOVPP, (b) certain mitigating factors concerning the alleged violations, and (c) the penalty factors under La. R.S. 30:2025(E)(3) and LAC 33:I.Ch. 7.

IV.

CITGO denies that it has committed any of the violations alleged in the NOVPP. CITGO asserts that (a) it has an excellent compliance history, (b) upon becoming aware of the Benzene NESHAP problem at the Refinery, it promptly notified the Department, and (c) it took prompt corrective actions pursuant to the Department's oversight and orders to address the problem. CITGO denies that fines or penalties are due for any of the violations alleged in the NOVPP.

V.

CITGO has proposed to resolve this matter through payment of a settlement amount and performance of the Beneficial Environmental Projects ("BEPs") further described in Paragraph VI of this Settlement. The Department has examined the "nine factors" provided in La. R.S. 30:2025(E)(3), the rules in LAC 33:I.Ch. 7, CITGO's mitigating factors assessment, and the significant costs and environmental benefits of the BEPs. Based upon this review, the Department

agrees to accept, and CITGO agrees to pay, a payment in the amount Three Hundred Thousand and No/100s (\$300,000.00) Dollars and the performance of the Beneficial Environmental Projects, as described below, in full settlement of the violations alleged in the NOVPP. In entering into this settlement, CITGO makes no admission of liability.

VI.

CITGO agrees to implement and complete the following Beneficial Environmental Projects:

- a. The Department recognizes and acknowledges the donation of Sixty Four Thousand and No/100 (\$64,000.00) Dollars by CITGO to facilitate the implementation of the Calcasieu Parish Comprehensive Air Sampling Program ambient air monitoring network. This program--supported by local industry, the Department and the U.S. Environmental Protection Agency-- is designed to provide up-to-date ambient air monitoring data to ensure the protection of air quality within Calcasieu Parish. CITGO agrees to donate the sum of Thirty Six Thousand and No/100 (\$36,000.00) Dollars to the Lake Area Industry Alliance pursuant to the cooperative agreement for continued support of this program.
- b. B-5 South Flare Tip. Install high efficiency smokeless flare tip in the B-5 South Central Flare at the Refinery. This flare tip will improve the operability of the flare and provide greater capacity for smokeless operation of the flare, as it will use less steam per pound of hydrocarbon combusted. Increased smokeless operation of the flare should help alleviate community concerns regarding flaring events. This project shall be completed within six (6) months after the signing of this agreement.
- c. B-12 Steam Supply Improvement at the Refinery. The steam supply improvement will ensure and improve the reliability of the system, allow a better quality steam to be used at the flare, minimize maintenance and increase smokeless operation of the flare. This should help alleviate community concerns regarding flaring events. This project shall be completed within six (6) months after the signing of this agreement.
- d. B-8, B-9 Flare Drum Pump. Replace existing B-8, B-9 Flare drum pump at the Refinery with motor and discharge line and construct new sump. This will improve the transfer of liquid materials which are condensed in the flare system collection lines prior to entering the flare itself and will minimize the amount of liquid material which might otherwise be entrained in the flare gases and contribute to incomplete combustion at the flare tip. The liquid material will be recaptured and recycled within the refining process and thus minimize the amount of material flared. This should help alleviate community concerns regarding flaring events. This project

shall be completed within six (6) months after the signing of this agreement.

- e. B-8, B-9 Flare Flow Meters. Install two flare flow meters on the B-8, B-9 Flare system at the Refinery. The new flow meters will provide information to (i) facilitate a more rapid response to any increase in flow or change in composition of the flare gases, (ii) facilitate quicker identification and elimination of leak sources in the production units, (iii) reduce response time by about half, and (iv) provide more precise information, which will allow a more precise metering of steam to the flare tip, thus conserving steam and reducing emissions. This should help alleviate community concerns regarding flaring events. This project shall be completed within six (6) months after the signing of this agreement.
- f. Purchase and donation of two (2) Photometric Ozone Analyzers. This equipment is designed to enhance the capabilities of the Department's ozone monitoring network and will be used to fill any data gaps which will enable the Department to more readily demonstrate compliance with ozone standards. It is CITGO's request that the Department give preference to the Calcasieu Parish area in the use of such monitors; however, the Department shall have discretion to use the monitors in the locations deemed most scientifically appropriate. The purchase of this equipment shall be coordinated through the Department. The equipment specifications made subject of this agreement are made a part hereof and are attached hereto as Attachment 1. The equipment specifications may be modified prior to CITGO's entering into a purchase order at the sole discretion of the Department, provided that the substituted specifications do not increase the cost. This project shall be completed within six (6) months after the signing of this agreement.

CITGO shall provide the Department written evidence of the installation of the equipment at the Refinery (for items b, c, d, and e above), in form and content satisfactory to the Department, within thirty (30) days following the complete installation of such equipment. It is estimated that the combined costs of the above described BEPs is One Million Three Hundred Forty-One Thousand and No/100s (\$1,341,000.00) Dollars.

VII.

CITGO and the Department agree that in establishing compliance with the terms of this Settlement, the Department will consider the total amount of CITGO's expenditures on the above-referenced BEPs. In the event CITGO's expenditures on the BEP's listed in Section VI (a-f) are less

than the amount set forth above, the LDEQ may consider any cost overrun on the other BEP as an offset against the shortfall. In the event of a shortfall in total expenditures, CITGO will propose for the Department's consideration and perform an additional BEP, which must meet the Department's approval, to satisfy the shortfall and spend the full BEP commitment of One Million Three Hundred Forty-One Thousand and No/100 (\$1,341,000.00) Dollars. If the additional proposed BEPs are not approved by the Department, the Department may require the balance due as a cash payment.

VIII.

CITGO agrees the Department may consider the NOVPP and supporting documentation on which it is based, the mitigation documentation submitted by CITGO, and this Settlement Agreement for the purpose of determining compliance history in connection with any future enforcement or permitting action by the Department and, in any such action, CITGO shall be estopped from objecting to the above referenced documents being considered as proving the violations alleged herein for the sole purpose of determining CITGO's compliance history.

IX.

This settlement is being made in the interest of settling the Department's claims and avoiding for both parties the expense and effort involved in litigation or an adjudicatory hearing. In agreeing to the compromise and settlement, the Department considered the factors for issuing and settling civil penalties set forth in La. R.S. 30:2025(E).

X.

CITGO has caused a public notice advertisement to be placed in the official journal of the parish governing authority in Calcasieu Parish, as well as a newspaper of general circulation in Calcasieu Parish. The advertisement, in form, wording, and size, was approved by the

Department and announced the availability of this Settlement Agreement for public view and comment. CITGO has submitted a proof-of-publication affidavit to the Department, and as of the date this Settlement Agreement is executed on behalf of the Department, more than forty-five (45) days have elapsed since publication of the notice. Any comments received by the Department have been considered prior to the execution of this Settlement Agreement.

XI.

The penalty payment described in Paragraph V is to be made within thirty (30) days from CITGO's receipt of notice in writing of the Secretary's signature, which notice shall be provided in writing, through certified mail, addressed to Alvin W. Prebula, Vice President, Lake Charles Manufacturing Complex, CITGO Petroleum Corporation, at P.O. Box 1562, Lake Charles, Louisiana 70602-1562. If payment is not received or the BEPs described in Paragraph VI are not performed, this Settlement Agreement is voidable at the option of the Department. Interest on any amount not timely paid accrues at the rate of 1 and 1/2% per month. Payments are to be made payable to the Department of Environmental Quality and mailed to the attention of Darryl Serio, Office of Management and Finance, Department of Environmental Quality, Post Office Box 82231, Baton Rouge, Louisiana, 70884-2231, with a copy mailed to the attention of Ted R. Broyles, II, Senior Attorney, Office of the Secretary, Legal Affairs Division, P.O. Box 82282, Baton Rouge, Louisiana 70884-2282.

XII.

In consideration of the above, the claims for penalties are hereby compromised and settled in accordance with the terms of this Settlement Agreement.

XIII.

This Settlement Agreement is limited to the claims contained in the NOVPP and is not intended to, nor shall be construed to, operate in any way to resolve any civil claims other than those explicitly set forth in the NOVPP. Except as specifically reserved herein, this Settlement Agreement resolves the claims set forth in the NOVPP and shall serve as a release from civil liability of Respondent (including its officers, directors, shareholders and employees) to the State of Louisiana for claims alleged by the Department in the NOVPP. Nothing contained herein shall be construed to prevent or limit the Department's rights and remedies, whether legal, equitable, civil, criminal or administrative except as expressly specified herein.

XIV.

The Department agrees that in consideration of the execution of this Settlement Agreement and the actions to be undertaken by CITGO pursuant to this Settlement Agreement, the Department shall not initiate or maintain any administrative or enforcement proceeding, lawsuit, claim or cause of action against CITGO with respect to the facts and/or violations alleged in (1) the NOVPP, (2) Compliance Order Tracking No. AE-C-98-0088 issued by the Department to CITGO on June 3, 1998, and/or (3) Administrative Order Tracking No. AE-0-96-0165 issued by the Department to CITGO on October 9, 1996.

XV.

The provisions of this Settlement Agreement shall apply to and be binding upon the State of Louisiana and upon CITGO and the officers, agents, servants, employees, successors, and assigns of both parties.

XVI.

Each undersigned representative of a party certifies that such representative is fully authorized to enter into the terms and conditions of this Settlement Agreement and to legally execute and legally bind such party to this document.

THUS DONE AND SIGNED on behalf of CITGO Petroleum Corporation, before me, Notary, in the presence of the undersigned competent witnesses, in Lake Charles, Calcasieu Parish, Louisiana, on this ____ day of _____, 2001.

WITNESSES:

CITGO Petroleum Corporation

By: _____
Alvin W. Prebula
Vice President
Lake Charles Manufacturing Complex

Notary Public

Specifications

Thermo Environmental Instruments, Inc.
U.V. Photometric Ozone Analyzer Model 49C

Present Ranges	0-0.05, 0.1, 0.2, 0.5, 1, 2, 5, 10, 20, 50, 100, 200 ppm 0-0.1, 0.2, 0.4, 1, 2, 4, 10, 20, 40, 100, 200, 400 mg/m ³
Custom Ranges	0-0.05 to 200 ppm 0-0.1 to 400 mg/m ³
Zero noise	0.5 ppb RMS
Lower detectable limit	1.0 ppb
Zero drift	<1 ppb/24 hour <2 ppb/7 day
Span drift	less than 1% per month (including drift or transducers)
Response time	20 seconds (10 seconds lag time)
Precision	1ppb
Linearity	+/- 1% full scale
Sample flow rate	1-3 liters/min
Operating temperature	20° to 30°C (may be safely operated over the range of 0-45°C)
Power requirements	105-125 VAC @ 50/60 Hz 150 watts
Physical dimensions	16.75" (w) x 8.62" (h) x 23" (d)
Weight	35 lbs
Outputs	selectable voltage 4-20 mA, RS-232, RS-485
Cost	\$7,500.00 Each

THUS DONE AND SIGNED on behalf of the Louisiana Department of Environmental
Quality, before me, Notary, in the presence of the undersigned competent witnesses, in Baton
Rouge, East Baton Rouge Parish, Louisiana, on this _____ day of _____, 2001.

WITNESSES:

LOUISIANA DEPARTMENT OF
ENVIRONMENTAL QUALITY

By: _____
Linda K. Levy, Assistant Secretary
Office of Environmental Compliance

Notary Public

Approved: _____

Linda Korn Levy
Linda Korn Levy
Assistant Secretary